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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Powerful Dollar Boosts Imports . . .

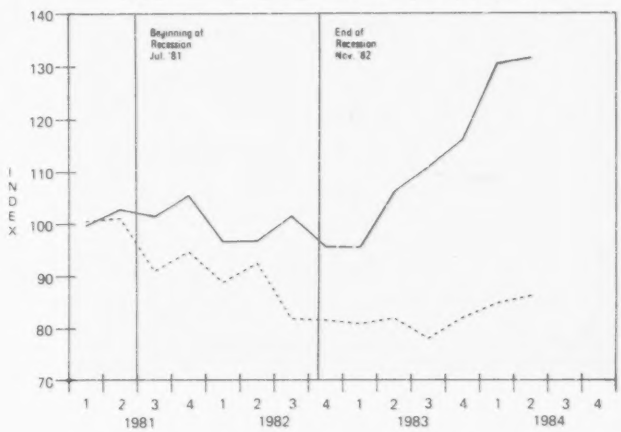
The spectacular appreciation of the dollar in terms of most other currencies which began in mid-1980 has been accompanied by an equally impressive deterioration in this country's external trade position. This deterioration accelerated in late 1982 as economic recovery got underway. Last year, the U.S. registered a record merchandise trade deficit of $61 billion (balance-of-payments basis)—68 percent higher than the year before. This year, the merchandise trade deficit is expected to exceed $100 billion. It is apparent that a major contributor to these massive trade deficits is the strong dollar which has risen by almost 65 percent on a trade-weighted basis from its low point in July, 1980.

The skyrocketing merchandise trade deficit has been attributed to two factors, a massive inflow of imports responding to the economic upturn and to eroding U.S. export competitiveness due to the strength of the dollar. Indeed, both of these problems—growing dependence on imports and declining export capability—have been seen as long-term secular trends in the U.S. economy, which the powerful dollar has exacerbated in the current recovery.

Certainly, the combination of a vigorous recovery and an appreciating currency has made merchandise imports exceptionally attractive to U.S. consumers and businessmen alike. Between the end of 1982 and June, 1984, merchandise imports increased by 35 percent in current dollars and 37 percent in real terms, adjusting for inflation. In the same period, the dollar rose 13 percent. Yet, during the 1981-82 recession, in spite of the fact that the dollar also grew by 13 percent on a trade-weighted basis, merchandise imports fell by ten percent in current dollars and six percent in real terms. Clearly, the strong dollar itself does not fully account for the recent flood of imports, although it has obviously reinforced the usual surge in imports which accompanies an economic recovery. Indeed, in every quarter since the beginning of the present economic upswing, the growth of real merchandise imports has exceeded the average of the six preceding postwar U.S. economic recoveries which have lasted 18 months or more. In June, the percent increase in real merchandise imports since the end of the recession was more than double the average increase in the six postwar recoveries.

There is evidence, however, that the swell of imports is beginning to slow, suggesting a response to a slowdown in the pace of the recovery. In the second quarter of this year, the seasonally adjusted level of merchandise imports increased by only 3.2 percent in current dollar terms over the previous quarter and only 0.7 percent in units. In the first quarter of this year, the nominal value and the volume of imports both increased over the previous quarter by a robust 12 percent.

INDEX OF 'REAL' U.S. IMPORTS [LINE] VS. INDEX OF 'REAL' U.S. EXPORTS [DOT] (1980=100)



. . . And Exports Improve, Too . . .

U.S. merchandise exports peaked in both value and volume terms in early 1981. For the following 18 months, the trend of both of these data series was generally downward. This has tended to obscure the fact that since the third quarter of last year, these trends have been reversed and there has been an improvement in U.S. export performance both in value and volume. Nonetheless, both measures of export performance are still well below the peak levels of early 1981 (see chart). When the effects of inflation are removed, U.S. exports in the second quarter of 1984 were still about 15 percent below the second quarter of 1981. Since the beginning of

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the economic recovery in late 1982, however, real merchandise exports have risen by seven percent. In fact, the export sector is performing better during this recovery than it has on average in any of the six previous postwar recoveries which have lasted over 18 months. In the past, exports have tended to fall during the first year or more of U.S. economic upturns as the domestic economy's needs pre-empted demand from abroad. This recovery, however, has proven to be an exception to that pattern in spite of the dollar's strength which would have been expected to further depress exports.

The recent improvement in U.S. merchandise exports, though broad-based, has been uneven with some sectors benefiting more than others. For example, between the second quarter of 1983 and the second quarter of 1984, agricultural exports rose in value by 15 percent, while nonagricultural exports were up by almost 13 percent. Over the same period, capital goods (excluding automobiles), which cover a number of high-technology sectors where the U.S. dominates world exports such as computers, commercial aircraft and office equipment, were up almost eight percent. Such exports tend to be "long lead-time items" with a considerable period elapsing between order and delivery. This lagged relationship between demand and delivery in an important segment of U.S. merchandise exports can distort U.S. export patterns to some degree.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/15/84	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	157.937	– 1.258	+ 3.601
Loans to Depository Inst.	8.692	+ 1.410	+ 7.218
Float	.561	– .201	– .525
Total Reserve Bank Credit	176.100	– .064	+11.019
Treasury Deposits with Federal Reserve Banks	3.120	– .822	– .190
Currency in Circulation	176.795	+ .511	+13.670
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	119.120	+ 1.731	+ 8.374
	8/15/84		
Member Bank Reserves:			
Total Reserves Held	36.970	+ .802	+ 2.119
Excess (Deficiency)	.618	– .012	+ .170
Net Borrowed Reserves	.421	+ .163	+ .091

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (8/6/84)	547.3	+ 7.0‡	+ 5.7‡
M2 (July '84)	2,281.0	+ 6.8	+ 7.3
M3 (July '84)	2,858.1	+ 9.8	+ 9.8
Domestic Nonfinancial Debt (1st Q'84)	5,406.0	+ 12.3	+ 12.0

†Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 8/17/84	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	10.10%	10.30%	10.50%
* Federal Agencies	10.67	11.40	11.80
* Project Notes–Taxfree (46% Taxable Equivalent)	11.11	11.48	12.22
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	11.45	11.65	11.95

‡Finance Company Paper–Prime

5- 14 days	11.20%
15- 29 days	11.25
30- 59 days	11.25
60- 89 days	11.25
90-179 days	10.95
180-239 days	10.75
240-270 days	10.75

‡* Bankers' Acceptances

Sep.	11.20%
Oct.	11.25
Nov.	11.22
Dec.	11.17
Jan.	11.15
Feb.	11.10

‡Industrial Paper–Prime

30- 89 days	11.20%
90-120 days	11.20

†Federal Funds Effective Rate 11.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'84	$ 3,646	$ 3,553	$ 3,267
Gross National Product (1972 Dollars)*	2nd Q'84	$ 1,640	$ 1,611	$ 1,525
Percent Change, Annual Rate	2nd Q'84	7.5	10.1	9.4
Change in Consumer Prices (new series)*	Jun '84	2.4%	2.4%	2.4%
Change in Producer Prices*	Jul '84n	3.6%	0.0%	0.0%
Civilian Employment (Thousands of Persons)†	Jul '84	105,395	105,748	101,225
Unemployment as % of Civilian Labor Force†	Jul '84	7.5%	7.1%	10.0%
Personal Income*	Jul '84n	$ 3,027	$ 3,003r	$ 2,745
Leading Indicators Composite Index (1967=100)†	Jun '84	167.4	168.9	157.3
Industrial Production Index (1967=100) †	Jul '84n	165.6	164.1r	149.7
Net Change in Consumer Installment Credit †	Jun '84n	$ 7.83	$ 10.23	$ 3.71
U.S. Merchandise Trade Balance †	Jun '84	–$ 8.91	–$ 8.84	–$ 4.89
Plant and Equipment Expenditures*	3rd Q'84	$314.52(a)	$303.79(a)	$270.05
Private Housing Starts (Thousands of Units)*	Jul '84n	1,761	1,886r	1,793
New Construction Expenditures*	Jun '84	$ 310.6	$ 311.3	$ 264.1
Total Business Inventories †	Jun '84n	$ 546.1	$ 545.9r	$ 500.6
Total Business Sales †	Jun '84n	$ 413.6	$ 412.7r	$ 369.0

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

. . . But The Trade Deficit Slows Growth

Perhaps a better idea of the recent improvement in U.S. export performance can be gained by comparing real export growth with real growth in the U.S. economy as a whole. In 1983, real GNP increased by 3.7 percent over 1982, while real merchandise exports declined 5.7 percent. In the first half of 1984, by contrast, the real economy grew at an annual rate of 8.6 percent, while real exports rose by 8.0 percent. It is apparent that although U.S. export performance since the beginning of the current economic recovery is modest when compared with the explosion of imports, it has kept the merchandise trade deficit smaller than it otherwise might have been. What is more, the fact that exports have risen during this cyclical upswing and the dollar is at record levels, brings into question both the effect of a strong currency in reducing U.S. competitiveness and particularly the simplistic conclusion that long-term U.S. export performance has deteriorated. What can be said, however, is that the strong dollar has increased the size of the usual import surge in a recovery but it does not appear to have had an equally strong effect in retarding exports.

Nonetheless, the fact that imports have been exceptionally strong and exports have not returned to pre-recession levels has slowed U.S. economic

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (8/1/84)	156,649	– 633	+10,901
New York City (8/8/84)	35,668	+ 386	+ 2,704
Commercial Paper (8/8/84)	219,954	– 1,682	+44,989

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/1/84)	244,686	+ 853	+27,547
New York City (8/8/84)	64,606	– 44	+ 5,663

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/1/84)	617,855	+ 2,227	+89,086
New York City (8/8/84)	137,402	– 1,795	+17,684

Financial Markets

	Friday 8/17/84	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	10.66%	–0–	+ 1.07
180-Day Bills†	11.28	+ .13	+ 1.29
Longest Bills†	11.74	+ .58	+ 1.46
Recent Issues:			
12⅝s 7/31/86	12.42	+ .26	
13⅝s 6/30/88	12.61	+ .22	
12⅝s 8/15/94	12.83	+ .30	
12½s 8/15/14	12.65	+ .25	
Municipals:			
Bond Buyer–20 Bond Index* (8/16/84)	10.02%	+ .21	+ .32
Blue List Total ($ Million)	$1,396	+ $223	+ $ 373
30-Day Visible Supply ($ Million)	$3,637	– $419	+ $1,354
Total	$5,033	– $196	+ $1,727
Corporates:			
Moody's Aa Composite (8/16/84)	13.45%	+ .09	+ .75
30-Day Visible Supply ($ Million)	$ 502	– $175	– $ 53
Stocks:			
Dow-Jones Averages:			
Industrials	1,211.90	– 6.19	+ 17.69
Transportation	514.71	– 4.83	– 19.02
Utilities	128.69	+ .32	– 2.19
65 Stocks	469.31	– 2.44	– 1.80
Standard and Poor's 500 Stocks	164.14	– 1.28	+ .16
N.Y.S.E. Composite Index	94.42	– .66	– .50
N.Y.S.E. Avg. Daily Vol. for Week (000's)	83,416	–68,600	+ 6,566

* 46% Taxable equivalent 18.56%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/17/84	Week Ago
Overnight	11.63%	11.50%
1 month	11.63	11.63
3 month	11.75	11.69
6 month	12.00	11.88
1 year	12.44	12.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.65%	12.50%
Long Term (7 to 15 yrs.)	12.65	12.65

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/17/84)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01732	57.73
Canada	.7672	1.3034
Denmark	.09569	10.4500
France	.1138	8.7865
Germany	.3493	2.8625
Italy	.0005650	1,770.00
Japan	.004146	241.20
Mexico	.005076	197.00
Netherlands	.3100	3.2253
Switzerland	.4188	2.3880
U.K.	1.3192	.7580

growth substantially. Between the fourth quarter of 1982 and the second quarter of 1984, real GNP increased by 10.9 percent. Had net merchandise exports (real merchandise exports less real merchandise imports) remained at fourth-quarter 1982 levels, real GNP growth in the same period would have been 13.1 percent.

The Dollar Hasn't Risen Everywhere

Not all currencies have depreciated against the dollar since 1980. From their weakest levels in the first quarter of that year, three Asian currencies have gained ground on the dollar. At the rates prevailing in mid-August, the Japanese yen has appreciated about three percent, and the Singapore and Brunei dollars (linked at par to one another) have risen about six percent. In marked contrast, all European currencies depreciated against the U.S. dollar with the German mark falling 32 percent, the pound sterling 39 percent, the French franc 48 percent, the Italian lira 46 percent and the Swiss franc 24 percent, all measured from their 1980 lows against the dollar.

The yen appears to have benefited from Japan's surging trade surplus in goods and services—which reached a record $21 billion in 1983 and might further soar to $30 billion this year. Japan's low inflation rate—a projected 2.5 percent this year after three percent in 1983, the lowest among the industrial countries in both years—has also boosted the yen.

The Singapore dollar, on the other hand, has been propelled by substantial inflows of foreign direct investment and short-term capital, the former responding to Singapore's hospitable business climate, and the latter pulled in by the country's high interest rates and low inflation rate—even lower than Japan's. These inflows continue, as in past years, to exceed Singapore's usually small deficit in goods and services trade, and have contributed to a rapid growth of international reserves. H

Quality. Loyalty. Consistency.℠

Some things shouldn't change. And these three words express the abiding philosophy which sets Manufacturers Hanover apart from other global financial institutions. At Manufacturers Hanover a lot of good people make this philosophy live. They put quality into the services we offer, make loyalty to our customers paramount, and give consistency to our approach and performance. If you value character as well as size and scope, consider the source.℠

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